

# News Release



***Controller of the State of California - Kathleen Connell***

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**FOR IMMEDIATE RELEASE**

## **STATE CONTROLLER KATHLEEN CONNELL ADDRESSES STATE'S CURRENT CASH FLOW SITUATION**

**Sacramento, August 28, 2002** – State Controller Kathleen Connell today announced that a continuation of the no-budget situation will soon affect her ability to meet essential obligations without incurring substantial costs for borrowing.

"A perfect storm scenario is developing at the Capitol," stated Controller Connell. "If the Legislature fails to pass a budget before its August 31, 2002, recess and declines to reconvene until November, California will have inadequate cash to meet its financial obligations during October 2002 and will require the sale of a "super sized" Revenue Anticipation Warrant to provide the necessary cash. I urge my colleagues at the Capitol to work diligently to reach a budget compromise before August 31, 2002, and to continue to meet after that date until the budget is passed."

Controller Connell highlighted that the lack of a budget is claiming new victims every day. The latest are the agencies that provide support and habitation services to the developmentally disabled. The Controller's Office was able to provide payments to these agencies for services based on special legislation passed in 1998. However, that only allows payment for services through August 31, 2002. After that date without a budget, no payments can be made.

"I am deeply concerned that the loss of funding will affect services to one of the most vulnerable populations in the State," said Controller Connell.

"To stem the tide of individuals and businesses harmed by the Budget impasse and to avoid increased costs of additional borrowing, I am calling on the Governor and the Legislature to meet their number one responsibility by passing and signing a responsible Budget into law before they recess."

In June of this year, Controller Connell sold \$7.5 billion in short-term debt securities, known as Revenue Anticipation Warrants, to ensure that sufficient cash would be available through October.

"Borrowing \$7.5 billion assumed that either the energy bonds were sold and the General Fund repaid by October for \$6,615 billion in electricity purchases, or that a budget would be passed no later than August 30, 2002," said Controller Connell. "Passing the budget by that date would have allowed the State

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to borrow an additional \$7 billion and have the proceeds in the Treasury to meet the State's expenditures by mid October. If the budget is not passed on time, the energy bond could address cash shortfalls in October. However, a RAN would still be needed to cover expenditures in November. Also, any delay on the sale of the energy bond will increase the shortfall. This would require that I sell a new RAW to cover the loss of both the RAN and energy bond revenues to allow the State to meet its obligations."

The outstanding RAW is to be paid off in three installments: 1) \$1.5 billion on October 25, 2002; 2) \$3.0 billion on November 27, 2002; and 3) \$3.0 billion on January 30, 2003. In anticipation of a lengthy budget delay, the Controller's Office entered into Stand-By Agreements with six financial firms to refinance the RAWs in the event the RAWs could not be redeemed on schedule.

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